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MOL – Hungarian Refiner Upgrades Mid-Term Targets

Rating: accumulate | target price: HUF 3,296 | current price: HUF 3,042

MOL PW; MOLB.WA | Oil & Gas, Hungary

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During an Investor Day in London earlier today, MOL announced an update to its mid-term strategic targets through 2023, which includes raised expectations for production volumes in the Upstream segment in 2020-2023, sets out a faster EBITDA growth path for Retail, and promises consistent hikes in annual base DPS to reach HUF 130-140 in 2023 versus HUF 85 paid this year. Further, MOL will be aiming to increase 2P reserves to 500mmboe in five years' time through organic growth as well as acquisitions, backed by a strong balance sheet. Last but not least, MOL has raised the CCS EBITDA guidance for 2019-2021 to $2.2 -2.4 billion compared to the original 2017-2021 guidance range of $2.0-2.2bn. The longer-term targets for 2022 and 2023 are set in the range of $2.4-2.6 billion. At the updated levels, the new mid-term targets top the current expectations of analysts, and they exceed our forecasts, which we will be updating shortly to reflect the new outlook.

Updated Outlook for Upstream

In its presentation for investors, MOL tasks its E&P business with finding 350mmboe of new reserves so that the total 2P reserves reach the target 500mmboe by 2023. Aside from organic initiatives (mostly replacement of reserves in Norway with 300mmboe capacity), M&A activity might be undertaken to achieve this objective. The production goals for the Upstream segment have been raised from 95-105mboepd originally forecast for the 2020-2021 period, indicating decreasing volumes, to an average 105-110mboepd in 2019-2021, and 100-105mboepd in 2022-2023, levels well above the current market expectations. The upward revisions are facilitated by a decision to move forward with the planned commercial turnaround of the Shaikan Field in Iraq, expected to as much as triple its current output from the current 3mboepd (attributable to MOL) by 2024. On top of that, MOL sees an extended plateau production phase for its UK deposits, and it is achieving better-than-expected results from optimization of Hungarian production.

Updated Outlook For Retail

MOL's vision for the segment of 'Consumer Services' entails the achievement of $500m EBITDA in 2023 (previously this line was expected to generate $450m EBITDA in 2021) through greater diversification away from a just a fuel retailer toward a consumer goods retailer and a leader in mobility services, with plans to develop a an electric car sharing fleet and fleet management solutions with potential to boost EBITDA by $100m over the forecast period.

Dividend Update

MOL reiterated it wants to raise DPS from year to year to reach HUF 130-140 in 2023. This is consistent with the 2019-2023 FCF target of $2.0-2.5bn, of which ca. $1.5bn to be allocated toward basic annual dividends, and the remainder earmarked for acquisitions and/or special dividends. MOL sees upside potential to its cash flow projections depending on oil prices, with an extra $0.9bn potentially coming in assuming oil holds at $70/bbl (and a further $0.8bn to be earned from the "IMO effect").

CAPEX Plans

MOL forecasts its 2019-2023 maintenance CAPEX at $5.0-5.5bn, a figure consistent with the previous medium-term forecasts. At the same time, the Company has increased the planned "transformational" CAPEX to $3bn over the five years to 2023 versus $2bn planned before during 2017-2021, making a higher allowance for as-yet undefined investment in the upstream segment.

List of abbreviations and ratios contained in the report.
EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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